Pension Investment Association of Canada

Association canadienne des gestionnaires de caisses de retraite

February 16, 2022

The Secretary
Ontario Securities Commission
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Me Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
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Delivered Via Email: comment@osc.gov.on.ca; consultation-en-cours@lautorite.qc.ca

Dear Sir/Madam,

Re: Consultation – proposed National Instrument 51-107 Disclosure of Climate-related Matters

The purpose of this letter is to provide feedback from the Pension Investment Association of Canada (PIAC) to the Canadian Securities Administrators (the "CSA") regarding their consideration of introducing disclosure requirements regarding climate-related matters for reporting issuers (other than investment funds).

PIAC has been the voice for Canadian pension funds since 1977 in matters related to pension investment and governance. PIAC's members manage over $2 trillion of assets on behalf of millions of Canadians. Our mission is to promote sound investment practices and good governance for the benefit of plan sponsors and beneficiaries.

PIAC members operate within a fiduciary framework that imposes a duty of loyalty and a duty of prudence on plan administrators. Pension plan trustees are required to act in good faith and in the best interests of plan members and beneficiaries while preserving the intergenerational fairness of the plan(s). PIAC believes, because of the potential for climate change and broader ESG factors to have financial impacts on plan investments now and well into the future, it is within the scope of our members' role as fiduciaries, as currently defined, to consider these in their investment processes and stewardship activities.

PIAC commends the CSA's effort to evaluate disclosure rules with an eye toward facilitating the disclosure of consistent, comparable and reliable information on climate change. This is imperative as the physical, transition and regulatory risks associated with climate change are ubiquitous throughout economies and represent a material risk within our portfolios that can not be mitigated through diversification. Investors therefore need consistent, comparable and reliable data from the companies to allow them to understand the financial implications of climate change on a company's business model, how management and the board is overseeing this risk, and how companies are measuring and monitoring their Scope 1, 2 and 3 emissions.

We acknowledge that significant progress has been made in voluntary disclosure of emissions, with data from Refinitiv showing that 66% of companies in the S&P500 Index disclose their Scope 1 emissions, 65% and 44% disclose Scope 2 and Scope 3, respectively. However, where companies do not disclose data, investors must rely on estimates and proxies provided by various vendors with a differing methodology. This is a costly and time-consuming endeavour that yields inaccurate results.

The proposed instrument contemplates various aspects of greenhouse gas (GHG) emissions disclosure including the materiality of such disclosures, standards to follow and whether disclosure of emissions should be mandatory. Climate change constituting a systemic risk to economies and communities is subject to a global consensus, and as such, PIAC supports mandatory annual disclosure for all issuers of Scope 1 and Scope 2 GHG emissions. We believe that this is the baseline disclosure for how organizations are managing climate risks and opportunities, allowing investors to make informed investment decisions. We recognize that measurement and disclosure of Scope 3 emissions can be more challenging, but still believe Scope 3 should also be disclosed.

With regards the proposal in the instrument to modify the TCFD requirements and not require scenario analysis, PIAC asks the CSA to reconsider this component and adopt a phased-in approach, on a comply or explain basis. Scenario analysis should be published by all issuers as it is a critical component in helping investors understand an entity's readiness and preparedness for a transition to a low carbon economy. As the proposal notes, scenario analysis is also an important tool for organizations to use in their strategic planning processes and can help organizations consider a broader range of assumptions, uncertainties, and potential future states when assessing financial implications of climate change.

PIAC recognizes that not all issuers have developed the capabilities to undertake scenario analysis. Thus, the CSA could vary requirements for reporting on climate scenario analysis for firms as a reflection of the material risk they face and provide guidance to issuers based on the recommendations of the TCFD[1]. For example, higher standards should apply to larger firms due to their importance for financial sector or general market stability. Whereas smaller firms that face material financial risk from climate change could be given the flexibility to utilize qualitative or narrative-based scenarios aimed at improving their understanding of key issues such as changing carbon prices or potential physical risk exposures under different temperature scenarios. Expectations should become more rigorous over time as capacity builds.

The CSA has proposed a phased-in implementation of the disclosure requirements with non-venture issuers subject to a one-year transition phase and venture issuers subject to a three-year transition phase. PIAC has been supporting and advocating for mandatory climate change disclosure for several years and do not wish to see these enhancements delayed unnecessarily. We believe that a one-year transition is sufficient for all issuers where climate change risk is material. Any additional flexibility should be afforded to issuers not based on market capitalization, but on materiality.

We also believe that the GHG emissions reporting should be accompanied by some form of assurance on GHG emissions reporting. Independent assurance on the accuracy, completeness and consistency of GHG emissions data would be beneficial to both internal decision-making and for investors and other external stakeholders. This could be achieved by requiring the GHG emissions disclosure to be integrated into the MD&A, which would provide some comfort on assurance and board oversight.

Finally, we note that the consultation assumes the proposed disclosures would not be mandatory until 2024 at the earliest. Investor expectations for climate-related disclosures from issuers is growing quickly and so are regulatory requirements elsewhere in the world. To ensure the Canadian capital markets remain globally competitive, we must be integrated into and consistent with the evolving international landscape related to disclosures (including the upcoming IFRS ISSB sustainability and climate-related disclosures). As such, the CSA should embed a nimble approach in its processes and priorities and implement a frequent review and update of its sustainability and climate-related disclosure requirements to remain forefront against international practices and regulations.

Reporting guidance is provided to organizations regarding their transition plans in the Guidance on Metrics, Targets, and Transition Plans (2021) issued by the Task Force on Climate-related Financial Disclosures (TCFD) in October 2021.

PIAC would like to again thank the CSA for this opportunity to contribute our ideas to this important work. Please reach out to Susan Golyak, Chair of PIAC's Investor Stewardship Committee if you would like any clarification of these comments.

Yours truly,

Sean Hewitt
Chair

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